Dundee Discussion Papers in Economics 148

Morelli, Carlo

Publication date:
2003

University of Dundee

Dundee Discussion Papers in Economics

The Development of Chain Store Retailing in the US and Britain 1850-1950

Carlo Morelli

Department of
Economic Studies,
University of Dundee,
Dundee.
DD1 4HN

Working Paper
No. 148
September 2003
ISSN:1473-236X

The development of Chain Store retailing in the US and Britain 1850-1950.[1]

Carlo Morelli

University of Dundee

The development of a highly integrated world economy, the development of transnational corporations and the creation of global branding have all added to the impression of a world dominated by uniformity and homogeneity. Indeed the rise of anti-capitalist movement on a world scale indicates that not only has production, distribution and retailing become globalised but so to have reactions to it.[2]

Indeed globalisation and branding have become one of the major features within the development of modern retailing. Whether it is McDonald's in fast-food, GAP or Nike in casual clothing or Walmart/ASDA in food, and increasingly non-food, retailing the growth of the global corporation is understood as one of the defining features of contemporary retailing.

The theories developed to explain these processes revolve around the importance played by competitive pressures, investment in organisational capabilities and managerial expertise, and the creation of sustainable competitive advantage through the implementation of strategic

[1] I am grateful to the Carnegie Trust for Scottish Universities and the University of Dundee Research Initiatives Fund for financial support in the preparation of this paper and the archivists at the Hagley, Baker and Mitchell Libraries for their assistance. All errors are the responsibility of the author.
[2] N. Klein, *No. Logo*, (2000).

planning by these organisations.[3] As such, therefore, the growth of big business is understood to be the result of market signals to which, more or less, dynamic firms have responded in an entrepreneurial way to new opportunities.

While contemporary retailing in the United States and United Kingdom, at first glance, certainly looks remarkably similar, characterised by concentration and large-scale retailing organisations, the evolution of these characteristics highlights a series of problems for the theories developed to explain this evolution. This paper undertakes of comparative study of the growth of large-scale retailing in the US and UK. The study highlights the rise of department store and mail order retailing, as early forms of large-scale retailing in both countries, and focuses specifically upon chain store (or multiple in the UK terminology) retailing in the US and UK.[4] It highlights the different patterns of development in the transition from small-scale independent retailing to large-scale retailing. In particular the paper highlights the differing environmental conditions under which large-scale multiple retailing organisations emerged and focuses upon the contradictory role played by competition, collusion and government regulation in this growth. The paper concludes by examining the wider issues of competition and power in the development of large-scale retailing. The following sections of the paper examines, first, the historical development of retailing within the US and UK from 1850s to the 1960s. This is followed by a look at the theories of retail development and in particular an examination of the role played by government in regulating price competition. While the US saw resale price maintenance

[3] A.D. Chandler, F. Amatori & T. Hikino (ed.s), *Big Business & the Wealth of Nations*, (1997 Cambridge), M. E. Porter, *Competitive Advantage*, (1985).
[4] There is no single definition of chain store retailing in both economies across time periods. The discussion that follows therefore refers to the generic form of multiple store retailing.

spread through the introduction of both state and federal 'fair trade' legislation the UK experience was one of resale price maintenance becoming contract law until it was made illegal in 1965.[5] The paper concludes with a re-assessment of the explanation of the rise of large-scale retailing organisations in the US and UK.

Retailing and big business

Institutional approaches to the rise of big business have emphasised the role played by competition policy and the enhancing of competitive pressures in the rise of the modern corporation.[6] Indeed this is taken further in economic explanations for long-term relative economic decline in the UK, where the weakness of supply side reform and competition policy hindered the incentives for investment and the formation of the corporate structures conducive to efficiency.[7] Convergence to a common production possibility frontier derives from the introduction of similar institutions and market regulation and divergence from this 'norm' derives from failures to follow the lead economies path.[8]

Within these approaches competition policy is seen to be much stricter in the US than in the UK. As is well known, US anti-trust legislation predated legislation in the UK by half a century, however, when we examine the comparative role of price competition in the US and UK the picture is far less clear. Both the US and the UK saw informal price

[5] Fair-trade and resale price maintenance refers to the practice of manufacturer controlled final consumer prices.
[6] T.K. McCraw, 'Government, big business and the wealth of nations', in Chandler, Amatori and Hikino (ed.s), *Big Business*, pp. 522-545.
[7] See S.N. Broadberry and N.F.R. Crafts, 'British economic policy and industrial performance in the early post war period', *Business History*, Vol.38, (1996), pp.65-91, N.F.R. Crafts & N.W.C. Woodward, (ed.s), *The British Economy since 1945*, (1991)
[8] B. Eichengreen, 'Institutions and economic growth: Europe after World War II', N.F.R. Crafts and G. Toniolo (ed.s), *Economic Growth in Europe since 1945*, (1996), pp.38-72.

maintenance emerge in the late nineteenth century. While this was ruled illegal in 1911, in the US, by the 1930s the US had both state level and federal legislation promoting price maintenance, known as fair-trade, whereas the UK saw the continuation of widespread informal agreements. As will be shown the control of price competition occurred at crucial periods in the rise of large-scale retailing organisations. Price competition was further limited by the actions of manufacturers who refused to supply discounting retailers. This again occurred at a period of crucial importance to the rise of large-scale retailing and as will be shown lower levels of vertical integration in US retailing meant that manufacturers' power would have been greater in the US. As a result the role of competition policy in the emergence of big business, with respect to retailing, is certainly more complex than much of the literature suggests.

The current interest in retailing has produced important collections of essays in recent years within the areas of business history and economic geography.[9] While there is a concern within this new work for both case study and theoretical approaches there remains an implicit acceptance that retailing is simply yet another, albeit under-explored, industrial case study awaiting the attention of researchers. Hence models of economic development and theory are readily applied to explain the path of development from its origins to maturity. Incremental evolutionary change dominates thinking. Retailing is understood to evolve increasing levels of concentration and integration over time.[10] Retailing similarly evolves mechanisms for raising finance and expansion through the transition from the family run firm

---

[9] G. Akehurst and N. Alexander (ed.s), 'The Emergence of Modern Retailing, 1750-1950', *Business History*, Vol.40., No.4, 1998 and N. Wrigley and M. Lowe (ed.s), *Retailing Consumption and Capital: Towards the new retail geography*, (Harlow 1996).

to the modern corporate managerial hierarchies.[11] Again, however belatedly, retailing internationalises as part of an incremental process of maturation.[12] Yet an examination of the detailed rise of large-scale retailing organisation highlights a complexity in development and differences in experience between economies. The pattern of development, timing and forms taken by retailing firms within differing economies changes significantly over time.

History of Retailing

Retailing across the US and UK would have looked remarkably similar in the first half of the nineteenth century. Small scale, independently owned retailers, stocking a small variety of products operated in high streets and towns across the two economies. Consumers did not have access to a wide variety of consumer products, mail order or department stores. It was not until the second half of the nineteenth century with growing urbanisation, combined with the development of mass production consumer industries particularly in durable consumer products and dry packaged foods in the last quarter of the nineteenth century, that we began to see the emergence of large-scale retailing, chain stores and branding.[13] Large city centre department stores, the emergence of mail-order and the development of regional and even national chain stores thus begin to emerge in the last half of the nineteenth century.

The United States saw department stores opening from the mid century with Stewart's in New York opening in 1846. This was followed by others including Macy's after the civil

---

[10] N. Wrigley, 'Retail concentration and internationalisation of British grocery retailing', in R. D. F. Bromley and C. J. Thomas (ed.s), *Retail Change: Contemporary Issues*, (1993), pp. 41-68.
[11] T. Burke and J.R. Shalcketon, *Trouble in Store*, pp.19-24.
[12] G. Akehurst & N. Alexander, *Internationalisation of Retailing*, (1995)

war.[14] Montgomery Ward became the first mail order companies in 1965 and 1872 respectively while in chain store retailing the Great Atlantic & Pacific Tea Company opened its first store in 1859 while Spiegel Inc.[15] In the UK early department stores had emerged from existing drapers stores such as Shoolbred in London and JW Campbell in Glasgow by 1860, as product lines extended beyond the narrow range of drapery, while the first major mail order company had also emerged in the Royal Welsh Warehouse by 1860.[16] The first chains emerged with WH Smith and John Menzies newsagents in the eighteen fifties. Of more significance was the growth in the food retailing activities of the Co-operative societies which, originating in 1844, had already grown to 400 societies by 1862 and 971 societies by 1881.[17]

It is important to recognise that these new forms of organisation had little impact on most areas of retailing prior to the twentieth century. It was only the department stores in the both the US and UK, mail order organisations in the US, in particular Montgomery War and Sears, Roebuck and the Co-operative societies in food retailing, in the UK, which can be identified as having any noticeable impact on consumers and retailing before the turn of the century. The reasons for this limited impact are of interest and help explain the later conflict that emerges between retailers and between retailers and consumers after World War One.

---

[13] A. D. Chandler, *Scale & Scope: the dynamics of industrial capitalism,* (Cambridge, Mass, 1990).
[14] M. Domosh, 'The feminized retail landscape: gender, ideology and consumer culture in nineteenth century New York city' in N Wrigley N, Lowe M, (Ed.s) 1996, (Longman, Harlow). *Retailing, Consumption and Capital: towards the new retail geography*, p.264
[15] G. M. Lebhar, 'The Story of the Chains', *Chain Store Age*, June 1950, p.19; G. M. Lebhar, 'The Story of the Food Chains', *Chain Store Age*, June 1950, p.J5 and J. Bean, *Beyond the Broker State: Federal polices toward small business 1936-61*, (1996, Chapel Hill, North Carolina) p.23
[16] R. Coopey & D. Porter, 'Agency mail order in Britain c.1900-2000: spare-time agents and their customers' in J. Benson & L. Urgolini, *A Nation of Shopkeepers: five centuries of British retailing,* (2003). p.227.
[17] J. Birchall, *Co-op: the people's business*, (1994 Manchester), pp.42-65 and J B. Jeffreys, *Retail Trading in Britain 1850-1950*, (1954 Cambridge University Press, Cambridge), p.17-22.

Early department stores catered primarily for middle and upper class consumers, their location, in the city centres of the largest cities, size of store and product ranges together ensured their market segment was located within the heart of the emergent urban wealth of late nineteenth century capitalist society.[18] Department stores specialised in purchasing, display and generally merchandising of more specialised high quality goods. Thus Macy's of New York, Selfridges or Harrods of London became synonymous with providing household goods to the rich. Indeed the opening of Kendal Milne, the first major department store in the regional city of Manchester, in the UK in 1873, saw comparisons with the most prestigious 'London houses' of the time.[19]

In contrast the wider mass markets for new consumer goods emerging within the US were taped by the large mail order firms. These firms exploited the distributional advantages created by large warehousing and packaging centres linked to the national distribution system created by a rapidly expanding railway network. Mail order firms were capable of achieving much greater economies of both scale and scope, with broader product ranges, than was the case for department stores. By 1906 Sear's Chicago warehouse was capable of despatching 100,000 orders per day.[20] Thus mail order firms were catering for consumers across a much broader range of social classes. Nothing comparable to these developments occurred in the UK. Watch clubs and other forms of consumer credit emerged to help working class consumers purchase durable goods but as yet living

[18] Jeffrey's, *Retail*, p.33.
[19] H. B. Bertramsen, 'Remoulding commercial space: Municipal improvements and the department store in late Victorian Manchester, in J. Benson & L. Urgolini, *A Nation of Shopkeepers: five centuries of British retailing*, (2003).p.218.

standards were too low to create a market for such distributional economies of scale to emerge.[21] One of the most established UK firms, Kays, was only capable of despatching 1,200 parcels per day by 1919.[22]

The exception to this lack of development in the UK was in food retailing, which incidentally, also highlights the importance of food among working class communities, rather than wider consumer expenditure, in household expenditure. Abuse of consumers through food adulteration, credit tying consumers to high priced local retailers and the truck system all contributed to the emergence of a rival retailing form in the Co-operatives societies. In food retailing the UK's Co-operative societies were unrivalled in their scale and scope. Already by 1900 the Co-operative societies had achieved around six or seven percent of the retail sales.[23] The Co-operative Wholesale Society had established international purchasing, warehousing and transportation facilities in Ireland, the USA, the East Indies, France, Denmark, Germany, Canada and even Australia. Further its production facilities also diversified beyond foodstuffs and into clothing, footwear, soap, and even furniture. It also established banking and finance departments to deal with the retail societies.[24] While the Co-operative societies were by far and away the largest large-scale retailer in the period they were not alone. No fewer than five firms maintained over 200 branches in the food retailing industry by 1900, including the International Tea Company, Thomas Lipton and Maypole Diary Company.[25] In total Jeffreys' estimates the number of multiple shops to be

---

[20] Chandler, *Scale and Scope*, p.61

[21] M. J. Daunton, *Progress & Poverty: AN economic and social history of Britain 1700-1850*, (1995, Oxford).

[22] Coopey & Porter, 'Agency mail order', p.228.

[23] Jeffrey's, *Retail*, table 7, p29.

[24] Birchall, *Co-op*, pp.84-5.

[25] Jeffrey's, *Retail*, p.139.

more than 11,600 at the turn of the century.[26] At the time all US chain retailing combined is suggested to probably have been no larger than a few hundred stores in total.[27]

The slow growth and differing patterns of development in large scale retailing within the US and UK in the late nineteenth century requires some explanation. Certainly growing consumer demand for goods played an important role in the opportunities for large-scale organisations to emerge. The increasing wealth of the richest in society encouraged the development at the luxury end of the market in both economies, hence the emergence and spread of department store retailing at approximately the same time. In certain respects the emergence of the mail order companies in the US mirrors those of the department stores. Mail order companies, along with department stores, without having to incur large sunk cost investment in a network of stores, were able to concentrate investment in specific areas of operations. While department stores specialised in display and promotion of goods mail order companies specialised in bulk purchasing, warehousing and distribution. In so doing cost savings and bulk discounts ensured leading nationally based mail order companies were able to access consumers department stores could not and provide a range of goods beyond the scope of more local stores. Importantly, mail order retailers did not need to integrate backwards into production. Instead the revolution in production, taking place in the last quarter of the nineteenth century in the US, provided them with large quantities of goods required by such large-scale retailers. Equally the revolution in distribution, the mail order companies created, provided manufacturers with the new forms of distribution they

[26] Jeffreys, *Retail*, table 4
[27] Lebhar, 'The Story of the Chains', p.18.

required.[28] Thus retailing within the US was characterised by symbiotic relationships between distinct manufacturers, wholesalers and retailers in which the investment in one part of the supply chain were mirrored further along the supply chain with further investment and new forms of organisation. Few firms therefore vertically integrated, to any significant degree, before the turn of the century.

The experience of the UK, where vertical integration became the norm for large-scale retailers, was very different. No similar production and distributional revolution took place in the UK to that of the US. Instead larger manufacturers and retailers that began to utilise mass production methods found the distributional networks for these goods inadequate and were forced to create these networks themselves. Thus we find that most of these early large-scale retailers had a high degree of vertical integration and also, as a result, specialised in the sale of only a very narrow range of own label goods. For example Lipton's and other tea dealing firms had their own blending and processing warehouses with Lipton's even vertically integrating backwards to owning plantation. The stores they opened would stock only the manufacturers' goods and may stock as few as six or so items. Similarly the large diary companies owned their own creameries and butter or margarine factories.[29] Most importantly of all, as discussed above, the Co-op societies became vertically integrated to a very high degree.

While it is important to recognise that differing patterns of development in retailing and consumption emerged, and therefore identifying a 'norm' and divergence from the norm is

[28] A.D. Chandler, 'The United States: engines of economic growth in the capital-intensive and knowledge-intensive industries' in Chandler, Amatori and Hikino, *Big Business*, pp.63-101.

an unhelpful deterministic methodology, it nevertheless is relevant to examine the comparative role played by economic factors in these patterns of development. Most importantly, it appears, price fixing and restrictions upon competition were directly relevant.

Small scale retailing, especially within the US with its lower levels of urbanisation, benefited from local monopoly power permitting retailers to obtain high margins on goods sold. With the limited transport available only consumers in the urbanised cities would have had access to any degree of substitutability between retailers. Further, the provision of consumer credit by retailers and the slow emergence of fixed price retailing all helped to ensure that retailing was not an industry characterised by high levels of competition. As urbanisation occurred opportunities for the development of large-scale and chain store retailing emerged. This increase in competition, however, rapidly saw attempts by retailers to limit the degree of price competition, in order to maintain retailers' monopoly power.

In the US early attempts to prevent the growth of department stores and mail order companies proved ineffectual. According to Bean legislation preventing department store construction failed to be passed by state legislators, while campaigns to 'trade at home', in response to mail order firms, were short lived.[30] Similarly, in the wholesale markets such as New York attempts to impose price fixing, as identified by the Federal Trade Commission, through destruction of goods and intimidation appear linked more to local attempts at fixing prices, or even moral economy, than the formal and nationally based price fixing which

[29] Jeffreys, *Retail*, p.145.
[30] Bean, *Broker State*, p.23-4.

developed in the UK.[31] Nevertheless, as Bean again highlights, manufacturers were able to introduce resale price maintenance on their branded goods from the late nineteenth century.[32] It was not until 1911 that resale price maintenance was ruled in breach of the Sherman Act.[33] Thus we see the emergence of what is described as 'intertype' competition between rival forms of retailing organisation deriving a form of Schumpeterian creative destruction which gives rise to innovation.[34] At the same time where manufactures had undertaken large-scale investment they were keen to develop stability within the retail sector and control over consumer prices and in order to prevent price competition reducing their returns.

It is in the UK that this low level of competition appears to have evolved further and quicker into formal agreements to limit price competition, largely as a result of the Co-operative societies. The Co-operatives emerged because the politics of sections of the working class movement which, after the defeat of Chartism, led them to seek to create alternatives to capitalism rather than its overthrow. One of the foci of these alternatives was in response to an area of central importance to working class living standards, namely the impact of high food prices on consumption.[35] The intertype competition posed by the Co-operative societies saw privately owned retailers respond to undermine this new threat.

---

[31] R.S.Tedlow, *New and Improved: The story of mass marketing in America*, (1990, Heineman, Oxford), p.209

[32] Bean, *Broker State*, p.68-9.

[33] A.D. Neale, *The Antitrust Laws of the USA*, (1970 Cambridge), pp. 276-8.

[34] See G. Shaw, A. Alexander, J. Benson and D. Hodson, 'The evolving culture of retailer regulation and the failure of the 'Balfour Bill' in interwar Britain', *Environment and Planning A*, 2000, 32, pp. 1977-1989.

[35] P.P. Thompson, *The Making of the English Working Class*, (1982), pp. 857-70.

Independent small scale retailers and the privately owned chains combined together to restrict competition in three ways. By the 1880s food retailers in urban areas such as London, including chains such as Sainsbury's, were engaged in formal arrangements or 'pacts' between retailers to reduce price competition and horizontal competition, through limiting the opening of new stores in areas under the control of existing members. Where a pact member wished to sell their stores the pact would combine together to purchase the member's stores, in order to prevent new entrants from gaining a valued site. In so doing the pact Sainsbury's was a member of, for example, rapidly built up a chain of 70-80 stores.[36] In the area of importing and wholesaling organisations were formed, which included retailers with wholesaling functions, to restrict vertical competition through the fixing of both wholesale and retail prices. The Home and Foreign Produce Exchange in London, formed in 1888, and the Scottish Provision Trade Association, in 1889 were among those whose 'chief function …. was to distribute information from other market centres in Britain and abroad and to issue weekly recommended price lists.'[37] These price lists were not simply a guide for members but were to be enforced by the executive of the exchanges, whose rules stipulated what punishment should be imposed for 'unfair' or 'dishonourable dealing':

> 'The Executive shall have power to consider, and if necessary, to take evidence in any complaint of a member charging another with unfair or dishonourable dealing; and if the charge be found proven by two-thirds majority of those present at the

---

[36] B. Williams, *The Best Butter in the World*, (1994 Ebury Press London) pp. 20-22

[37] Glasgow City Archive, Mitchell Library, TD1200/2/2 M. Moss, '100 Years of Provisioning in Scotland' p. 7

> meeting specially called to consider the complaint, the Executive shall have power to censure or expel the member at fault.'[38]

The Co-operatives had been forced to vertical integrate into purchasing and wholesaling precisely because of the boycott they faced by wholesalers refusing to deal with them. Finally, in common with the US, manufacturer imposed resale price maintenance also emerged by the last decades of the nineteenth century as manufacturers of branded goods sought to restrict price competition.[39]

By the end of the nineteenth century UK retailing became characterised by a series of restrictive agreements aimed at reducing competitive pressures and restricting the growth of the Co-operative societies. Importantly, both independent and chain retailers, types of retailers which came into conflict within the US, adhered to and supported these developments as they protected margins and profits. The connection between price maintenance and the reduction of competition with the emergence of large-scale retailing derives from the creation of a stable market environment, through collusion and price maintenance, which provided firms with the ability to invest in new stores, warehousing and distribution facilities. The reduction of competitive pressures saw margins boosted and profits high enough to encourage these investments. Once these investments had established

---

[38] Glasgow City Archive, Mitchell Library, TD1200/3/14, 'Scottish Provision Trade Association, Produce Exchange Glasgow, Constitution and Rules', 1st February 1923, Rule 16.

[39] H.Mercer, *Constructing a Competitive Order*, (Cambridge 1995), J. F. Pickering, *Resale Price Maintenance in Practice*, (1966) and B.S. Yamey, *Resale Price Maintenance*, (1966).

new organisational capabilities for the firm, the market environment could be altered to suit the competitive advantages created by this investment.[40]

Under these arrangements chain retailing succeeded in expanding in the UK, unlike in the US where weaker collusive pressures did not encourage the growth of chains prior to manufacturer imposed resale price maintenance, developed in the last years of the nineteenth century. Crucially, it was the last decade of the nineteenth and first decade of the twentieth century that saw chain retailing establish itself in the US. Already by 1910 it was estimated that chains' numbers had risen to as much as 5,000 stores.[41] Once this take-off had been achieved the years before 1950 saw a revolution in the retailing environment.

During the first half of the twentieth century the United States demonstrably became the world's innovator in the development of modern retailing techniques. While the UK had seen the emergence of large-scale chain-store organisations within the United States this process developed to a much more significant extent. Chain retailing, unlike earlier forms of large-scale retailing in the US such as department store or mail order, now saw the vertical integration into warehousing and production that had been a characteristic of the early UK experience. Unlike the United Kingdom however, chain-store organisation within the US coincided with the introduction of self-service, larger formats and in then by the 1930s refrigeration, new packaging methods and supermarket retailing formats.[42]

---

[40] C.J. Morelli, 'Information Costs and Information Asymmetry in British Food Retailing', *Service Industries Journal*, Vol.19, No.3, 1999, pp.175-86.
[41] G. M. Lebhar, 'The Story of the Chains', p.18
[42] US self service stores of over 2,000 sq ft. were described as supermarkets in the UK. While US supermarkets as large as 50,000 sq. ft. would be described more closely as hypermarkets in the UK. See M.M. Zimmerman, *Super Market: spectacular exponent of mass distribution* (Super Market Publishing,

The extent of vertical integration within the United States can be seen from the following examples. The Ginter Co., operating 279 grocery stores in 1924 used forward integration, operating eight restaurants, as well as backward integration, operating one bakery and a candy production and manufacturing plant.[43] In 1925 when the Ginter Co merged with two other chains, O'Keefe Inc. and John T. Connor Co., to form First National Stores Inc. with 1,644 stores it continued to use backward vertical integration to manufacture meat products.[44] Elsewhere, Safeway Stores Inc. with 2,037 stores and 34 warehouses by 1953 similarly operated 19 bakeries and over 66 manufacturing and bottling plants.[45] Finally, the most widely known example is that of the Great Atlantic and Pacific Tea Company with its enormous network of over 14,000 stores operating by 1925, selling its own lines of grocery and provision goods.[46]

In a similar fashion large-scale retailing organisations within the United Kingdom continued to use backward vertical integration into manufacturing or from the movement of manufacturers forward into retailing. Thus by 1939 national grocery retail chains were established, such as Lipton's with its 449 stores, selling primarily tea from its own plantations, and the Maypole Dairy Co., with 977 stores, or the Meadow & Pearks Dairy Co., with 762 stores, supplied through their own dairy businesses.[47] Smaller more regionally organised chains also emerged selling a wider range of goods including Sainsbury's, a

New York 1937), p.8-15 and C.J. Morelli, 'Britain's most dynamic sector? Competitive advantage in multiple food retailing', *Business and Economic History*, 26, (1997), pp.770-81.

[43] Baker Library, First National Supermarkets Inc., Annual Report, 1924, p.8

[44] *Barrons*, 13th April 1931, p.20

[45] Baker Library, Safeway Stores Inc., Registration Statement & Prospectus, 1954, p.6

[46] Lebhar, 'Story of the Food Chains', p.j6, Tedlow, *New and Improved*, table 4-1 and W.I. Walsh, *The Rise and Decline of the Great Atlantic & Pacific Tea Company*, (Secaucus, New Jersey 1986).

provision dealer selling its own label products with 255 shops by 1939.[48] Here the organisation was vertically integrated in a backward direction encompassing not simply warehousing and delivery but wholesaling, manufacturing and even food production.

The explanation for this level of vertical integration lies in the economies of scale and transaction cost savings that accrued to retailers through the internalisation of transactions. Unified relational contracting was encouraged where retailers sold high volumes of a narrow range of goods.[49] Typically these goods were those which also required relatively skilled handling and processing of fresh foods including dairy and meat produce. However, as A&P and Lipton's demonstrate this was not exclusively so. Dry packed goods including tea and coffee could and did lead to unified relational contracting.

While the earlier chains extensively utilised vertical integration later chains and discount super market chains such as Big Bear and King Kullen, established in the 1930s in the United States, avoided vertical integration and instead opted for selling manufacturer branded packaged goods.[50] At the same time in the United Kingdom retailers emerged such as Tesco selling manufacturer branded goods utilised bulk purchasing, rather than vertical integration, to gain larger discounts in order to create competitiveness. Finally, the UK firm Marks & Spencer selling exclusively own-label apparel again chose not to integrate into

---

[47] P. Mathias, *Retailing Revolution*, p.358.
[48] B. Williams, *Best Butter*, pp.74-5.
[49] O. E.Williamson, *The Economic institutions of Capitalism: Firms, markets, relational contracting*, (1985, Free Press New York).
[50] M.M. Zimmerman, *Super Market*, pp.8-16.

manufacturing but opted for what may be described as long-term relational contracting with suppliers to avoid the investment in clothes manufacturing.[51]

The timing and the extent of vertical integration into manufacturing is of importance in understanding the changing nature of retailing. Within the United States one source suggests that by 1958 slightly under 10% of chain food store sales were accounted for by chain-branded products emanating from their own manufacturing facilities.[52] Within the United Kingdom only around 6-7% of grocery sales were own-label products and, given that only a small proportion of these would have emanated from retailer-owned manufacturing facilities, therefore we can assert that vertical integration into manufacturing was a minority activity for most retailers.[53]

Unified relational contracting into manufacturing was a successful strategy for early retailing firms aiming to develop economies of scale in an environment characterised by the sale of a narrow range of high volume goods. Under these circumstances manufacturers were capable of guaranteeing outlets for their output while retailers were capable of guaranteeing supply of goods to stores. Just as supplying department stores and mail order companies had been important for the earlier mass production consumer industries so vertical integration was for the early chain retailers in their development. Vertical integration was a risk minimisation strategy in which investment at one end of the supply chain required investment at other

---

[51] G. Davies, 'The evolution of Marks and Spencer', *Service Industries Journal*, 1999, 3, pp.60-73 and A. F. Rainine, 'Combined and uneven development in the clothing industry: the effects of competition and accumulation', *Capital and Class*, 22, (1984), pp.141-56

[52] F. J. Charvat, *Supermarketing*, (1961 MacMillan New York), p.170.

[53] See Morelli, 'Information costs', pp.175-86.

points along the supply chain to avoid dis-economies of scale emerging.[54] However, as retailing itself became characterised by increases in scale and scope, with larger stores stocking both a wider selection of competing goods, and a wider range of goods the necessity of retailers to engage in unified relational contracting diminished. As a result later entrants into retailing utilising newer retail formats adopted a less integrated approach.

Under this new environment bi-lateral relational contracting became advantageous to both manufacturers and retailers. Manufacturers, engaging in mass production techniques, promoting branding and trade marking, required as wide a range of outlets for their products as possible. Under these circumstances manufacturers of branded goods were unwilling to engage in vertical integration into retailing. Equally, as store size increased, retailers success required upon the expansion of the range of products beyond those which unified relational contracting gave retailers access too.

The impact of these innovations can be demonstrated by examining the data in table 1. Whereas multiple retailing in the UK was estimated to be between 10-14% of total sales in 1900 in the US, although we have no figures, it would in all probability have been below 5%.[55] By the end of the Second World War although the independent sector was stronger within the United States, relative to the United Kingdom, a small number of very large chain-stores were responsible for much higher levels of sales within the United States than the United Kingdom. Only if we consider the Co-operatives and private chains together in the

---

[54] See G.B. Richardson, *Information and Investment* (1990 Clarendon Oxford) on this point.
[55] Jeffrey's, *Retail*, table 7. The US Census of Retail Chains estimates that by 1929 retail chains were responsible for 21.9% of all retail sales. US Department of Commerce, *Census of Distribution: Retail Chains*, (1933 Washington), p.14.

UK is it possible to state that the UK continued to lead in terms of large-scale retailing organisations. Thus the United States exhibited a much greater polarisation between large-scale chains and small-scale independent retailers in its retailing environment than was the case in the United Kingdom.

Table 1

Concentration in the United Kingdom and the United States - Sales and Establishments

	United Kingdom (1950)						United States (1948)			
	%									
	Independent est.	Independent sales	Chain est.	Chain sales	Co-op est.	Co-op sales	Independent est.	Independent sales	Chain est.	Chain sales
Grocery	78.3	52.0	13.1	23.8	8.6	24.2	93.4	62.4	6.6	37.6
All Retail	82.4	62.9	12.8	26.2	4.7	10.8	93.0	75.8	7.0	24.2

Notes: Chains in the United Kingdom are firms with 5 or more establishments and in the United States 4 for more establishments.

Source: M. Hall, J. Knapp & C. Winstein, Distribution in Great Britain and North America, (Oxford 1961), table 14.

The role played by regulation of price competition is again of importance in these changes. Resale price maintenance had been ruled illegal by a decision of the US Supreme Court in 1911 in a case brought by Dr Miles Medical Co., a proprietary drug manufacturer, when it failed in its attempt to sue a wholesaler for selling to discounting chemists. Nevertheless, manufacturers' refusal to supply unless prices were maintained was permitted until 1920 when the Supreme Court ruled that manufacturers including Colgate were acting illegally if they refused to supply retailers who discounted prices.[56] More explicitly still price maintenance was reintroduced through the introduction of 'fair-trade' legislation, first in California in 1931 and by 1937 nationally with the passing of Miller-Tydings Act.

Two aspects of this legislation of particular interest was first the support the legislation had from independent retailers, some chains such as the National Association of Retail Druggists and manufacturers associations including the National Industrial Distributors' Association. The campaign for fair-trade had been intense in the US during the 1920s with manufacturers publicly campaigning against price cutting. Second, was the 'non-signer' clause which permitted manufacturers to impose resale price maintenance not simply on wholesalers they deal with directly but wholesalers and retailers much further down the supply chain.

The regulation of price competition in the US was further strengthened in 1936 with the passing of the Robinson-Patman Act which limited the discounts manufacturers could make available to retailers for bulk orders. This act described as the 'Magna Charta for small business', together with fair-trade legislation ensured that price competition was severely curtailed from the mid 1930s until the mid 1950s.

Between 1952 and 1954 the number of fair-trade agreements fell 44% and although federal fair-trade legislation limped on when the Miller-Tydings Act was repealed in 1975 only 11 states continued to recognise fair-trade contracts.[57] A similar fate befell the Robinson-Patman Act where the number of complaints issued under the act fell from 144 to one

[56] Neale, *Antitrust*, pp. 216-7 & 276-9..
[57] Bean, *Broker State*, pp.81-84

between 1960 and 1973 such that although the act was never repealed, it was no longer used.[58]

The UK experience of resale price maintenance was somewhat different. Attempts to pass similar legislation to fair-trade legislation were attempted with the introduction of the Shops (Retail Trading Safeguards) Bill, or 'Balfour Bill', in 1937. Despite the similarities in the arguments used by the Bill's proponents to those in the US, suggesting that small shopkeepers were the bedrock of communities playing an important civic role and therefore their position needed protection and that large-scale retailing was removed, independent of and therefore parasitic upon the communities they operated in, the bill failed to get passed.[59] Nevertheless RPM was introduced and promoted through contract and enforced through civil court action. Its development at the end of the nineteenth century continued throughout the period under consideration, with the exception of the two wars when price maintenance was strengthened further through rationing and price controls. While collective enforcement of resale price maintenance was made illegal following the passing of the 1956 Restrictive Trade Practices Act RPM continued to be legal for individual manufacturers to impose until the 1956 Resale Prices Act. No similar legislation to the Robinson-Patman Act followed within the UK and retailers were able to negotiate discounts at will.

Assessments of the impact of price maintenance are fraught with problems; it is unknown exactly how many agreements were made, how many were enforced, how many implicit rather than explicit agreements existed and how widespread refusal to supply really was.

---

[58] Bean, *Broker State*, p.62.
[59] Shaw et.al., 'evolving culture', p.1984.

Certainly manufacturers used price maintenance whenever possible. The US firm General Electric, for example, made 30,000 fair trade agreements in 1937-8 and undertook 3000 lawsuits to enforce the agreements. Nevertheless, the growing complexity of retailing ensured that fair-trade is estimated to have only covered around 15% of total retail sales in the US, while in the UK RPM was suggested to be 'well entrenched in the distribution of various classes of consumer goods', accounting for between 27-35% of all consumer goods.[60] Most agree however that it was the 1930s and 1940s that saw price maintenance at its height.

Price maintenance's importance lies not simply in the restriction on price competition but in the wider impact the regulation of competition had on retailers. At the same time that price maintenance was at its height, and price competition at its weakest in the US, new forms of retailing were emerging with the development of discount supermarkets.
Large out of town stores of 30,000 sq ft or more with ample parking, not developed in the UK until the late 1960s onwards under the term of hyper markets, emerged in the independent sector in the early 1930s. As described above supermarket retailers such as Food Fair Stores were not vertically integrated and instead relied upon accessing a wide range of products, bought in bulk and sold with low margins. Chains rapidly emerged, either as these new independents grew such as Food Fair Stores or as large chains moved into supermarket retailing such as the Great Atlantic & Pacific Tea Company, such that by 1950 chain stores were responsible for as much as 69% of the supermarket sector's trade.[61] Under these circumstances changes in the use of vertical integration for retailers occurred in

[60] Yamey, *Resale Price Maintenance*, p.253 and Bean, *Broker State*, p.75-83.
[61] Charvat, *Supermarketing*, pp.168-87.

the US, which again did not develop in the UK until the 1970s. While, as discussed above, manufacturing became a minority activity for retailers vertical integration into warehousing and distribution was not. By 1950 it was estimated that over 90% of groceries flowed through retailer owned central warehouses or retailer owned co-operative warehouses.[62] Thus at the time when price competition was at its most restricted large chains of retailers were emerging using vertical integration in the areas where economies of scale were at their most beneficial to the retailers.

Restrictions upon price competition had a different impact on UK retailing. The UK saw a merger wave within the retailing sector in the 1930s which was followed, after the ending of post-war controls, by the movement towards self-service and later supermarket retailing.[63] Price maintenance was therefore important for creating the conditions under which new retailing forms emerged in both the US and UK. It created the environment for firms to introduce further innovations in own-label products, packaging, logistics and warehousing, leading to further 'intertype' competition between retailing forms with the demise of restrictions created by Robinson-Patman and Fair Trade in the US in the 1950s and breakdown of RPM in the UK after 1958. [64]

Conclusion

[62] Charvat, *Supermarketing*, p.170.
[63] The impact of resale price maintenance in UK retailing has been examined in detail in C.J. Morelli, 'Constructing a balance between price and non-price competition in British multiple food retailing 1954-64', *Business History*, Vol.40, No.2, 1998, pp.45-61.
[64] See Anglo-American Council on Productivity, *Retailing*, (1952 HMSO, London)

An examination of the development of large-scale retailing in the US and UK highlights a number of important themes. Both economies developed retailing environments at different times with important demographic and geographic differences impacting upon the growth of department store and mail order retailing in different ways. Department stores emerged to suit a market segment similar in the differing economies while the growth of the mail order firm was specific to the US. In contrast however, the early development of large-scale food retailing initially in the Co-operative societies but later with private retail chains was unique to the British experience. When chain-retailing belatedly emerged in the US it did so at a rate and in a form which was unique to the US. Its later, but much more rapid, development was such that by the 1930s self service, refrigeration and cellophane packaging of fresh meats had been introduced yet did not enter into UK retailing until the 1950s while the US also saw scale economies emerge with supermarket retailing and centralised warehousing in the 1930s which did not develop within the UK until the 1970s. Thus the concept of a singular developmental path to large-scale retailing misses crucial characteristics of this history.

Equally, the living standards of the mass of the population and the politics of the working class movement played an important role in these developments. Politics was to play an important role in the development of the large-scale chain retailers in the US and the UK. The political campaigns of small businesses, manufacturers and some chains proved to be powerful lobbyists for restrictions on price competition and discounts to large-scale retailers. In contrast, within the UK it was the politics of many within the Chartist movement, half a century earlier, that led to the establishment of Co-operative societies in response to high prices and adulteration in consumer industries.

Finally, institutional forms and the legal framework played an important role. Traditions of government intervention within the economy within the US permitted legislation creating a formal structure for retail regulation, whereas traditions of laissez faire and hostility to government intervention saw UK retailing develop within a more informal legal structure. Thus the suggestion that competition policy and the development of the large firm coincides ignores the somewhat more complex picture that exists when looked at in detail.

Firms themselves responded to these differences by changing their internal relationships to the supply chain. Historically we can suggest that the tendencies within retailing were initially towards unified relational contracting through vertical integration. However, with the growth of branded goods and the emergence of larger store formats this tendency was reversed with bi-lateral relational contracting becoming the norm. Large scale retailers now found their competitive advantage lay increasingly in centralised head office functions: purchasing, stock-control, financing, store development and advertising. Vertical integration became concentrated upon warehousing and distribution among the largest retailers.

Finally, and something rarely discussed, the development of modern retailing is characterised not simply by the emergence of large-scale organisation but by a polarisation between very large-scale retailing groups and very small-scale independent retailing. It is the ability of both forms of retailing organisation to segment their markets, regulate competition and create local monopolies that helps to explain this polarisation. The small corner store does not face a high degree of price competition. Its competitive advantage is based upon its convenience, operating within a very local geographical market with primary consumers that are immobile. In contrast the larger organisation attracts highly mobile primary consumers with a higher disposable income who are less price sensitive.

Bibliography

Akehurst G, Alexander N (Ed.s), 1995 *Internationalisation of Retailing* (Frank Cass, London).

Akehurst G, Alexander N (Ed.s), 1998 'The Emergence of Modern Retailing, 1750-1950' *Business History* **40** pp.1-164

Anglo-American Council on Productivity, 1952 *Retailing* (HMSO, London).

Baker Library, First National Supermarkets Inc., 1924 *Annual Report*

Baker Library, 1925, *Barrons*

Baker Library, 1954 Safeway Stores Inc., Registration Statement & Prospectus

Bean J, 1996 *Beyond the Broker State: Federal polices toward small business 1936-61* (University of North Carolina Press, Chapel Hill North Carolina).

Benson J, Urgolini L (Ed.s), 2003 *A Nation of Shopkeepers: five centuries of British retailing* (Tauris, London).

Birchall J, 1994 *Co-op: the people's business* (MUP, Manchester)

Bertramsen H B, 2003, 'Remoulding commercial space: Municipal improvements and the department store in late Victorian Manchester, in *A Nation of Shopkeepers: five centuries of British retailing* Ed.s J Benson, L Urgolini (Tauris, London) pp. 206-25.

Broadberry S N, Crafts N F R, 1996, 'British economic policy and industrial performance in the early post war period' *Business History* **38** pp.65-91.

Bromley R D F, Thomas C J (Ed.s), 1993 *Retail Change: Contemporary Issues* (London).

Burke T, Shackleton J R, 1996 *Trouble in Store?: retailing in the 1990s* (IEA, London).

Chandler A D, 1997, 'The United States: engines of economic growth in the capital-intensive and knowledge-intensive industries' in *Big Business & the Wealth of Nations* Ed.s A D Chandler, F Amatori, T Hikino (CUP, Cambridge) pp.63-101.

Chandler A D, Amatori F, Hikino T (Ed.s), 1997 *Big Business & the Wealth of Nations* (CUP, Cambridge).

Chandler A D, 1990 *Scale & Scope: the dynamics of industrial capitalism*, (Harvard University Press, Cambridge Mass).

Charvat F J, 1961 *Supermarketing* (MacMillan, New York)

Coopey R, Porter D, 2003, 'Agency mail order in Britain c.1900-2000: spare-time agents and their customers' in *A Nation of Shopkeepers: five centuries of British retailing*, Ed.s J Benson, L Urgolini (Tauris, London) pp.226-49.

Crafts N F R, Woodward N W C (Ed.s), 1991 *The British Economy since 1945* (Clarendon Press, Oxford)

Daunton M J, 1995 *Progress & Poverty: An economic and social history of Britain 1700-1850* (OUP, Oxford).

Davies G, 1999, 'The evolution of Marks and Spencer' *Service Industries Journal* **3** pp.60-73 Domosh M, 1996, 'The feminized retail landscape: gender, ideology and consumer culture in nineteenth century New York city' in *Retailing, Consumption and Capital: towards the new retail geography,* (Ed.s) N Wrigley, M Lowe (Longman, Harlow). pp.257-70.

Eichengreen B, 1996 'Institutions and economic growth: Europe after World War II' in *Economic Growth in Europe since 1945* Ed.s N F R Crafts, G Toniolo (CUP, Cambridge), pp.38-72.

Glasgow City Archive, Mitchell Library TD1200/2/2, M. Moss, '100 Years of Provisioning in Scotland'

Glasgow City Archive, Mitchell Library TD1200/3/14, 'Scottish Provision Trade Association, Produce Exchange Glasgow, Constitution and Rules', 1st February 1923.

Jeffreys J B, 1954 *Retail Trading in Britain 1850-1950* (Cambridge University Press, Cambridge).

Klien N, 2000 *No Logo* (Flamingo, London).

Lebhar G M, 1950, 'The Story of the Chains', *Chain Store Age* June pp.15-60

Lebhar G M, 1950 'The Story of the Food Chains', *Chain Store Age* June pp.J1-J17.

Mathias P, 1967 *Retailing Revolution* (Longman, London).

McCraw T K, 1997, 'Government, big business and the wealth of nations' in *Big Business & the Wealth of Nations* Ed.s A D Chandler, F Amatori & T Hikino (CUP, Cambridge).

Mercer H, 1995 *Constructing a Competitive Order* (CUP, Cambridge)

Morelli C J, 1997, 'Britain's most dynamic sector? Competitive advantage in multiple food retailing' *Business and Economic History* **26** pp. 770-81.

Morelli C J, 1998, 'Constructing a balance between price and non-price competition in British multiple food retailing 1954-64' *Business History* **40**(2) pp.45-61.

Morelli C J, 1999, 'Information Costs and Information Asymmetry in British Food Retailing' *Service Industries Journal* **19**(3) pp.175-86.

Neale A D, 1970 *The Antitrust Laws of the USA* (2nd edition CUP Cambridge)

Pickering J F, 1966 *Resale Price Maintenance in Practice* (George Allen & Unwin, London)

Porter M E, 1985 *Competitive Advantage* (Free Press, New York).

Rainine A F, 1984, 'Combined and uneven development in the clothing industry: the effects of competition and accumulation' *Capital and Class* **22** pp.141-56

Richardson G B, 1990 *Information and Investment* (Clarendon, Oxford).

Shaw G, Alexander A, Benson , Hodson D, 2000, 'The evolving culture of retailer regulation and the failure of the 'Balfour Bill' in interwar Britain' *Environment and Planning A* **32** pp. 1977-1989.

Tedlow R S, 1990 *New and Improved: The story of mass marketing in America* (Heineman, Oxford).

Thompson E P, 1982 *The Making of the English Working Class* (Penguin, London).

Walsh W I, 1986 *The Rise and Decline of the Great Atlantic & Pacific Tea Company* (Secaucus, New Jersey).

Williams B, 1994 *The Best Butter in the World* (Ebury, London)

Williamson O E, 1985 *The Economic institutions of Capitalism: Firms, markets, relational contracting* (Free Press, New York).

Wrigley N, Lowe M (Ed.s), 1996 *Retailing, Consumption and Capital: towards the new retail geography* (Longman, Harlow).

Wrigley N, 1993, 'Retail concentration and internationalisation of British grocery retailing' in *Retail Change: Contemporary Issues* Ed.s R D F Bromley and C J Thomas (UCL Press, London) pp 41-68.

US Department of Commerce, 1933 *Census of Distribution: Retail Chains* (Washington)

Yamey B S, 1966 *Resale Price Maintenance* (Weidenfield and Nicholson, London).

Zimmerman M M, 1937 *Super Market: spectacular exponent of mass distribution* (Super Market Publishing, New York)